



Clarke-Mobile Counties Gas District

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February 21, 2017

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Via Agency Website

Re: Docket No. R-1547; RIN 7100 AE-58, Risk-based Capital and Other Regulatory Requirements for Activities of Financial Holding Companies Related to Physical Commodities and Risk-based Capital Requirements for Merchant Banking Investments, Notice of Proposed Rulemaking

We submit this letter in response to the request for comments by the Board of Governors of the Federal Reserve System (the "Board") in its Notice of Proposed Rulemaking (the "NOPR") relating to the physical commodity activities of financial holding companies ("FHCs"). These comments are filed on behalf of the Clarke-Mobile Counties Gas District ("CMC").

CMC is a public corporation formed by three member municipalities in Alabama under the provisions of the Alabama Gas Districts Act, § 11-50-390, *et seq.*, Alabama Code (1975). The member municipalities of CMC are the City of Jackson, Alabama; the Town of Grove Hill, Alabama; and the City of Thomasville, Alabama. It is a governmental entity. Its Board of Directors is comprised of the mayors of its member municipalities. The same mayors comprise the Board of Directors of CMC's sister gas supply agency, The Black Belt Energy Gas District, which is separately submitting comments in this proceeding.

CMC is a municipal natural gas transmission and distribution system that provides natural gas transportation and sales service to retail gas customers in an eight-county area in southwestern Alabama. CMC also provides wholesale natural gas sales service to other municipal gas systems and their joint action agencies that it purchases in gas prepayment transactions as authorized by its Board of Directors under its certificate of incorporation.

CMC is a participant in the natural gas marketplace generally, including the marketplace for long-term gas supplies. For many years, going back to 2006, CMC has participated in natural gas prepayment transactions as a purchaser of prepaid gas from several joint action agencies, including prepayment gas supplied by several Financial Holding Companies (FHCs). These gas supplies are essential to enable CMC to meet the needs of its customers for reliable, secure, firm natural gas deliveries at reasonable and competitive prices. CMC participated in two gas prepayment transactions in 2016 (one with The Black Belt Energy Gas District and the other with The Lower Alabama Gas District, with which CMC is also affiliated). Discounted gas from these transactions is now serving gas consumers in Alabama, Louisiana, Florida, Georgia, Tennessee, and Kentucky. FHCs are among the primary participants in this marketplace as gas suppliers. As such they provide an essential service to the municipal gas industry, one that we believe could not and would not be replicated or replaced by other industry participants, at least not under market conditions that have prevailed over at least the past ten years.

It is essential to the well-being of our system and the customers we serve that CMC have the option available to it to purchase long-term natural gas supplies through gas prepayment transactions. Accordingly, any governmental steps, including those contemplated in the NOPR, that could lead to the inability of FHCs to participate in that marketplace or would increase the cost of doing so would be adverse to the interests of CMC, our member municipalities, and all of the consumers we serve – residential, commercial, institutional and industrial. CMC's interests are consistent with the interests of the natural gas consuming public that we serve.

CMC filed comments on the ANPR in April 2014, and on two occasions has met with the General Counsel of the Federal Reserve to discuss the natural gas industry in which municipal

entities operate. We appreciate the fact that the NOPR steps back from the prohibition on FHCs remaining in the physical natural gas business that was contemplated in the ANPR. However, we think the NOPR is still an overreach, a solution in search of a problem as it pertains to the natural gas industry.

The NOPR proposes increases in capitalization requirements that will increase the cost of doing business for FHCs participating in the natural gas markets. This would have the result of increasing the cost of natural gas prepayments for CMC and therefore for the gas consumers we serve, as well as for consumers served by municipal gas systems nationwide. The economics of gas prepayments in the marketplace that have prevailed over the last several years make the successful completion of such projects very difficult. Any increase in the cost to prepaid gas suppliers of providing the supply has a negative effect on our ability to close the transactions and thereby purchase the supplies at discounted prices for the benefit of our consumers. Capitalization requirements on holding inventory provide a disincentive for FHCs to be physical gas suppliers in prepayment transactions other than as suppliers taking transitory or flash title to gas and relying on others as upstream physical commodity suppliers. We view the 300% capitalization requirement as being excessive and outside what would be applicable in the marketplace. We fear the NOPR could convince some FHCs to withdraw from the physical gas markets as it becomes more difficult to operate profitably. A reduction in the number of prepaid gas suppliers in the market will be detrimental to municipal gas systems.

Not only would the departure of FHCs from the physical commodity marketplace be highly adverse to the interests of municipal natural gas systems and gas consumers, it would serve no countervailing public purpose. Our experience is that FHCs are the most creditworthy counterparties with which we have an opportunity to transact business. Our experience is that FHCs are more efficient and operate in a regulated environment that results in them taking a cautious, businesslike approach to their commercial obligations and strict adherence to the requirements of their contracts. They are experienced participants in the natural gas commodities markets and have developed an increasingly sophisticated understanding of the specific markets in which they operate. We have found them to be customer-oriented with a

strong desire to be long-term business partners with us. Short-term benefit has never trumped the preservation of long-term relationships in our experience with them.

The natural gas commodities marketplace has only been deregulated for a couple of decades. We have already seen significant changes in the structure of that industry in those two decades. We strongly believe that changes brought about by regulatory fiat would not be in the public interest and would cause significant upheaval, particularly in the long-term gas supply marketplace.

The ANPR expressed, and in turn the NOPR expresses, concern about the impact that catastrophic losses, exemplified by the Macondo disaster in the Gulf of Mexico and the San Bruno pipeline rupture in California, could have on FHCs as a result of their participation in the physical commodities markets. This fear, in our view, is inapplicable and misplaced, because we are talking about the purchase and sale of natural gas by FHCs in the market. Such commercial activities do not involve the ownership of oil and gas producing infrastructure or gas or oil transmission pipelines, or anything comparable to them that poses the risk of catastrophic loss.

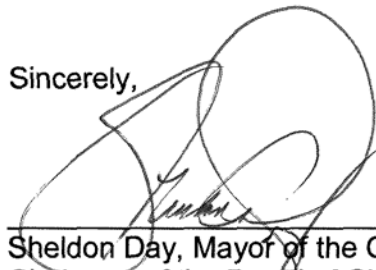
Accordingly, it is our view that those FHCs that wish to should be permitted to continue to play the roles in the physical gas commodity marketplace that they have come to play in recent years. We believe the Board should not impose additional restrictions, operational or financial, on FHCs that are participants in the physical natural gas commodity industry and believe that doing so would have the effect of harming CMC and the consumers we serve and similar systems and consumers nationwide.

We also think the best course of action for the Board to take at this juncture is to defer any further action with respect to the NOPR until new appointments to the Board have been filled, the new Administration has had an opportunity to weigh in on the issues presented, and members of the new Congress and the Committees of jurisdiction have likewise had an

opportunity to consider the issues and present their views if they should choose to do so.

As always, we appreciate the opportunity to comment and would be pleased to answer any questions the Board may have of us as it continues to analyze these important issues. We are grateful for being provided the opportunity to have input in the process and to have our views considered.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sheldon Day', is written over a horizontal line. The signature is stylized with large loops and a long horizontal stroke extending to the right.

Sheldon Day, Mayor of the City of Thomasville, Alabama
Chairman of the Board of Clarke-Mobile Counties Gas District